

Viewpoint

New Jersey's higher education system ripe for expansion

By John E. McCormac
New Jersey State Treasurer

One of the best investments a state can make is in its public higher education system. Equipping colleges and universities with capital and learning resources not only benefits students, but also provides a state with the



John E. McCormac

means to strengthen the qualifications of its workforce, which pays long-term dividends in the form of a stronger state economy and improved quality of life for all residents.

Strengthening our institutions of higher learning would clearly make New Jersey more competitive in attracting more students to the State and preventing those who live here from going beyond our borders to attend college. Limited space in part forces institutions to turn away worthy students who migrate outside the State for college because New Jersey schools can not offer enough to them. We can ill afford to allow this brain drain to continue.

Statistics show that students who go to high school and college in the same state are ten times more likely to remain in their home state for their first job. Our State currently is last in the nation in the net migration of students, meaning more New Jersey resident students attend colleges elsewhere than any other

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Final IRS refunding regulations highlight need to monitor 'private use' by colleges and universities

On December 19, 2005, the IRS published final regulations regarding the application of "private activity bond" tests to refunding bonds.

The critical element of these regulations, applicable to both public and private colleges and universities, is that it is now necessary to test whether any private use of the refunding bonds, measured on a combined basis with the private use of the refunded bonds, exceeds limits permitted by federal tax law.

An exception to combined testing is available if the private use of the refunded bonds was within permissible limits during a separate measurement period for the refunded bonds.

If the exception does not apply, however, it will be necessary to establish the actual use of refunded bond proceeds prior to a refunding.

The final rules apply to refunding bonds sold on and after February 17, 2006 if:

- (1) the refunded bonds were issued on or after May 16, 1997,
- (2) the weighted average maturity of the refunding bonds exceeds that of the refunded bonds, or
- (3) NJEFA elects to apply 1997 IRS private activity regulations to the refunded bonds.

Now that the combined measurement approach is required, the New Jersey Educational Facilities Authority recommends that colleges and universities establish monitoring and record keeping procedures to be able to take maximum advantage of future refunding opportunities.

To obtain a copy of the final regulations, which, in addition to the combined testing requirement, include various

technical rules on the application of the private use and other private activity bond tests in refundings, call NJEFA's Senior Advisor, Katherine Newell, at 609-987-0880 or visit www.njefa.com.

“ . . . it is now necessary to test whether any private use of the refunding bonds, measured on a combined basis with the private use of the refunded bonds, exceeds limits permitted by federal tax law.”



Richard J. Codey
Acting Governor

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NJEFA's activity reflects national trends, global challenges

By Roger L. Anderson
NJEFA Executive Director

In 2005, NJEFA closed the highest issuance volume in its history—nearly \$1 billion in financings. Since inception, we have completed 377 transactions with a total value of \$8.2 billion, of which approximately half is currently outstanding. In the last 6 years alone, we have issued over \$4.2 billion in debt, fully as much as we issued in our first 33 years of existence.

Just as NJEFA's business has grown, according to Moody's, higher education's share of the municipal finance market nationally has more than doubled over the last 12 years. In 2005 alone, the nationwide volume in tax-exempt financings for new higher education projects was about \$24 billion.

The growth in issuance is driven by the need to expand facilities to accommodate growing enrollments and the need to upgrade facilities in the ever-changing world of technology. Reflecting those needs, a recent survey in *The Economist* defined the world-wide challenge in higher education as balancing the twin demands of excellence and access.

The Economist called higher education the engine of the knowledge economy. The inputs alone are staggering. The World Bank recently calculated that global spending on higher education amounts to \$300 billion a year or 1% of global economic output. Worldwide, there are more than 80 million students and 3.5 million faculty and staff in higher education. Further, where higher education was once viewed as an elite pursuit, a college or

university education today is becoming a common ambition around the world. This alone foretells the tremendous challenge of meeting the demand for capacity at our institutions.

The Economist survey called America's the most suc-



Roger L. Anderson

cessful system of higher education and credited the US as doing well in providing both excellence and access. A world-wide ranking of universities (see chart inset) produced by The Institute of Higher Education at Shanghai's Jiao Tong University shows 17 American universities in the top 20, and 35 of the top 50. According to *The Economist*, the US also "provides access to higher education for the bulk of those who deserve it."

In New Jersey in 2002, according to The National Center for Education Statistics, 64% of New Jersey's high school graduates went on to degree-granting colleges and universities,

and 36% of our high school graduates enrolled in New Jersey institutions. The chart on page 3 illustrates the growing demand for spaces at our colleges and universities. In 2004, New Jersey's system of higher education enrolled over 380,000 part-time and full-time students, and conferred over

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America rules		
The world's top universities*		
1	Harvard University	America
2	Stanford University	America
3	University of Cambridge	Britain
4	University of California (Berkeley)	America
5	Massachusetts Institute of Technology	America
6	California Institute of Technology	America
7	Princeton University	America
8	University of Oxford	Britain
9	Columbia University	America
10	University of Chicago	America
11	Yale University	America
12	Cornell University	America
13	University of California (San Diego)	America
14	Tokyo University	Japan
15	University of Pennsylvania	America
16	University of California (Los Angeles)	America
17	University of California (San Francisco)	America
18	University of Wisconsin (Madison)	America
19	University of Michigan (Ann Arbor)	America
20	University of Washington (Seattle)	America

*Ranked by a mixture of indicators of academic and research performance, including Nobel prizes and articles in respected publications
Source: Jiao Tong University, Shanghai

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— *In my opinion* — ‘Solutions for Our Future’



John B. Wilson

The sector executives of higher education in New Jersey recently had the opportunity to receive a briefing by the American Council on Education (ACE) about a project it is preparing to launch in 2006 called “Solutions

for Our Future.” The goal of this initiative is to sustain postsecondary education’s capacity to serve community and national interests.

The project plans to have impacts in six areas:

- Sustaining economic growth
- Increasing real wages
- Addressing workforce needs
- Reducing international skills gaps
- Sustaining technological advancements
- Serving communities

It is clear to the people working on this important ACE project that higher education is a key solution in each of the aforementioned areas.

Both the New Jersey Commission on Higher Education (CHE) and the New Jersey Presidents’ Council have fashioned their annual New Jersey State Budget Policy Statements around the concept of the link between educational opportunity and economic development. Everything on the impact list is supported by this concept.

By John B. Wilson, President and CEO Association of Independent Colleges and Universities in New Jersey

It has also been demonstrated time and again that people who have the benefit of post-secondary education enjoy more social mobility; higher personal income; higher quality personal

(NJFEA) in financing, constructing and equipping the facilities that serve the 321,000 students enrolled. The New Jersey Commission on Higher Education has crafted and implemented a long-range plan for higher education that complements the ACE “Solutions.” Now, NJFEA becomes an even more important partner in helping to expand the



health; are more active as community volunteers, and participate more as citizens, especially voters.

Here in New Jersey, the higher education community enjoys a special partnership with the New Jersey Educational Facilities Authority

capacity to serve; in helping to meet the objectives of the long-range plan, and in helping to maintain and expand the facilities that are integral to the delivery of quality educational services for the citizens of our State. ✈

NJEFA’s activity, *continued from page 2*

60,000 degrees and certificates. The chart shows healthy trends with enrollment growth up over 13% in the last 5 years and nearly 17% growth in degrees awarded for the same period. Further, *The Chronicle of Higher Education* has projected continued growth in the number of high school graduates in New Jersey over the next decade.

If indeed higher education is the engine of the new economy, even more important than what goes into it is what comes out of it – graduates qualified to succeed in today’s economy. As Treasurer McCormac expresses on page 1, our investments in higher education “pay dividends”, both economically and socially. Eight years ago, President Clinton

said, “[E]ducation is the fault line between those who will prosper in the new economy and those who will not.” That is even truer today as our policymakers debate the need to fund capital facilities for colleges and universities and public/private partnerships and synergies between our academic institutions and private industries.

The current State budget’s support for higher education is almost 9% higher than that in the prior budget, but much of the increase is for financial aid, which helps make college education more affordable, but does nothing to expand capacity so that more people can go to college in this State.

In order for society and individuals to maximize the opportunity for prosperity, higher education must meet the twin challenges of excellence and access for as many students as possible.

The very fact that NJEFA is so busy is testament to our clients’ determination to provide both: excellent educations – educations for the new economy – to growing numbers of students.

As we enter the new year, NJEFA looks forward to celebrating its 40th Anniversary of partnering with our Colleges and Universities to help make their vision and prospects for a world-class system of higher education a reality in the Garden State. ✈

Breaking Records

As 2005 draws to a close, we can reflect on the records that have been broken: Lance Armstrong won his seventh consecutive Tour de France title, Alan Greenspan is retiring after an unprecedented 18 years as Chairman of the Federal Reserve, Oprah is celebrating 20 years as *the* talk-show host and the municipal bond market is poised to shatter the record set in 2003 for municipal bond issuance.

It is intriguing that the record pace for municipal debt issuance would be fueled during a period of steadily increasing interest rates. As I write this, the Federal Reserve will be meeting on December 13, and it is expected that they will then raise, for the 13th time in a row, the target overnight rate another 25 basis points, to 4.25% (anyone with a phobia regarding "13", relax, the Fed will most likely raise rates again at their 14th meeting in 2006). The markets have seen the target overnight rate rise from 1% in June 2004 to the current rate of 4.0%.

Through November 2005, municipal bond issuance was estimated to be over \$370 billion. This is just a stone's throw away from the \$383 billion issued in 2003. The driver behind this increase in municipal bond activity has been a surge in refunding transactions which are up 44% from refunding volume in 2004, and a strong supply of new money transactions.

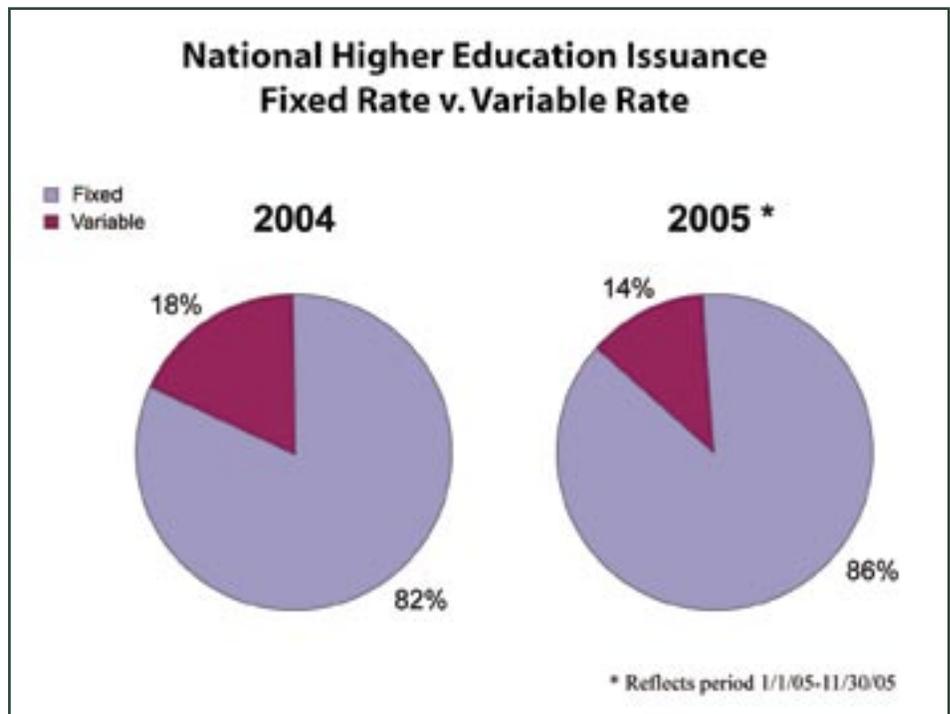
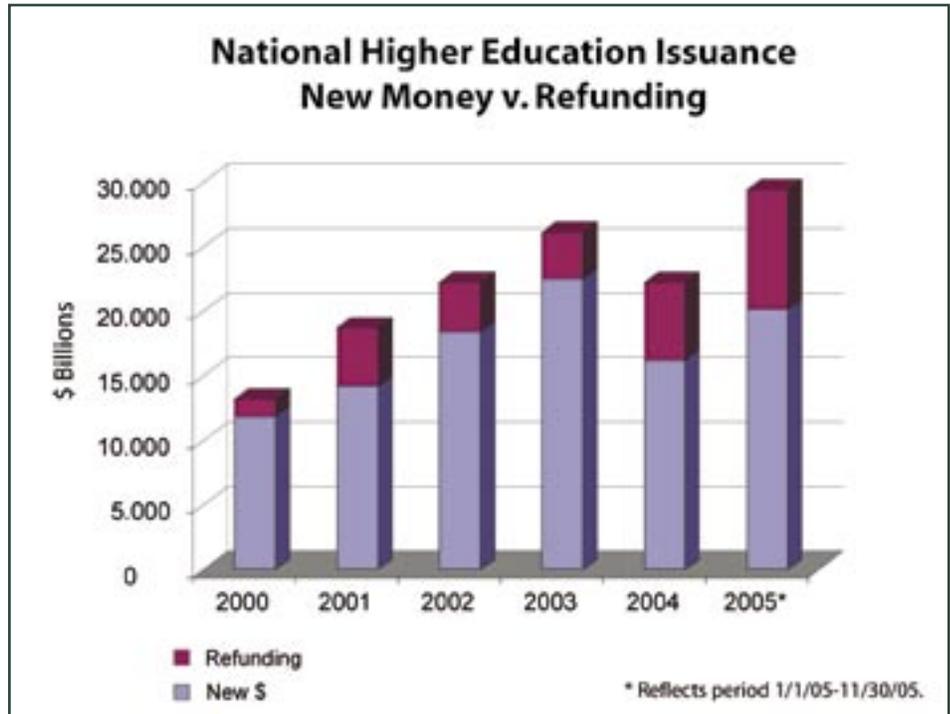
Colleges and universities saw their volume of debt increasing over 2004 levels based on data from Thompson Financial Services. Through November 2005, higher education institutions have issued in excess of \$29 billion of long-term bonds compared with \$22.2 billion for all of 2004 and surpassing the record set in 2003 of \$26 billion. Similar to the national market, refunding transactions increased over 2004 levels, from \$6 billion for 2004 compared to over \$9 billion through November 2005. The percentage of financings done on a variable rate basis declined slightly, a reflection of concerns regarding the steady increase in municipal interest rates.

And what of New Jersey? The financings of higher education institutions at



By Noreen White
Municipal Advisory Partners, Inc.

home mirrored the national trends. And for breaking records? Here's hoping the US Women's Olympic Hockey Team sets a record by winning another gold medal and the NJEFA succeeds in breaking the \$1 billion financing mark next year. 



NJEDA Issues Closed in 2005

Institution	Project	Closing	Amount
Private			
Princeton University	Refunding	4-12-05	\$139,590,000
Princeton University	Capital Improvements	6-16-05	\$114,645,000
Seton Hall University	Science & Technology Center/ Property Acquisition/Sports Field Improvements	8-18-05	\$57,750,000
Public			
New Jersey City University	Renovations to Student Union/ Pedestrian Mall/Capital Improvements	1-26-05	\$21,575,000
Richard Stockton College of New Jersey	Capital Improvements and Refunding	3-4-05	\$31,150,000
Thomas Edison State College	Acquisition of Equipment, Furniture and Fixtures	3-8-05	\$1,800,000
Rowan University	Refunding	4-13-05	\$51,840,000
Montclair State University	Conversion of auction rate bonds to term rate fixed mode	8-17-05	\$101,925,000
Richard Stockton College of New Jersey	Refunding	10-27-05	\$28,180,000
The William Paterson University of NJ	Refunding	11-10-05	\$42,295,000
Kean University	Academic Building/Renovations/ Refunding	12-08-05	\$101,915,000
State-Backed			
H.E. Capital Improvement Fund	Refunding	8-10-05	\$169,790,000
Higher Education Facilities Trust Fund	Refunding	9-23-05	\$90,980,000
Grand Total			\$953,435,000

Viewpoint, *continued from page 1*

state. This results in a loss of billions of dollars to the State from unrealized jobs and economic investment.

New Jersey's system of higher education was largely built between 1965 and 1975 as the State responded to a surge in population and an increased demand for higher education. Many of New Jersey's community colleges were created during this time as well as institutions such as the New Jersey Institute of Technology, the University of Medicine and Dentistry of New

Jersey and Thomas Edison State College.

Many pent up capital expansion and renovation needs at county and community colleges are being addressed as a result of actions taken in the FY 2005 budget. Through this budget, the statutory cap on Chapter 12 financing was raised by \$100 million, freeing up additional fiscal resources to address space and modernization needs at county college facilities.

According to the New Jersey Department of Labor & Workforce Development, the State is facing another rise in demand for higher education similar to the need faced

by the Garden State 40 years ago. In 2002, there were 598,200 jobs in New Jersey in which a bachelor's degree is required. By 2012, the number of positions requiring a college degree will rise to 700,500.

The best way to meet that need is to improve the State's academic system that prepares the workforce.

Investing in New Jersey's colleges and universities is a smart decision that will not only strengthen our higher education system but serve as a down payment on the State's economic future. ✍️



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NJEFA welcomes new staff member, promotes others

NEW STAFF MEMBER

Katherine A. Newell, Esq.

joined NJEFA this past year as Senior Advisor. Her responsibilities include coordination of the work of all counsel providing legal services to NJEFA. She also provides advice on



Katherine A. Newell

structure and documentation for financings, handles post-closing tax and legal issues, and reviews and monitors federal and state legislative and regulatory developments.

Ms. Newell brings over 20 years of experience, most recently as a partner in the law firm of Gluck Walrath, LLP and prior to that in the firm of DeCotiis, FitzPatrick, Gluck & Cole, LLP.

She has also served as an Attorney-Adviser in the National Office of Chief Counsel to the Internal Revenue Service, Chairperson to the Pennsylvania Public Utility Commission's Consumer Advisory Council, an *ex-officio* member of the Pennsylvania Council on Utility Choice and an adjunct faculty member in Villanova University School of Law's Graduate Tax Program.

Ms. Newell holds a Bachelor's Degree in Mathematics from Temple University, a Juris Doctor from Villanova University School of Law and a Master of Laws in Taxation from Georgetown University Law School.

STAFF PROMOTIONS

Several NJEFA Staff members received promotions this past year.

Gary Vencius was promoted to Senior Accountant. Mr. Vencius has responsibility for operating fund administration, payroll processing, arbitrage compliance, set-aside compli-

ance and procurement for the Authority. He also prepares the annual operating and capital budget proposals.

Jamie Wright was promoted to Accountant Trainee. Ms. Wright provides support in bond fund administration and maintains the Authority's investment data base and DBC Debt Manager. She also provides support in managing operating fund accounts.

Nichole Muratore was promoted to Project/Communications Assistant. Among her added responsibilities are assistance in the development of Authority publications, web site maintenance and special events/conference management.

Linda Hazley was promoted to Office Manager. In addition to her receptionist and administrative duties, Ms. Hazley oversees all office supply purchasing and inventory, office equipment maintenance and coordinates the hiring and training of temporary personnel. ✈